

FDIC State Profile

Spring 2006

West Virginia

West Virginia's economic growth remains modest.

- West Virginia's economic performance was on par with the nation at the end of 2005. Job growth in fourth quarter approximated the national increase of 1.4 percent (see Chart 1). Continued strength in construction, healthcare, and natural resource mining has helped offset losses in the state's manufacturing sector.
- Numerous mining accidents since the beginning of 2006, however, may require substantial investments in safety upgrades, which may negatively affect profitability and, ultimately, jobs in this vital economic sector.

Home price appreciation accelerated in 2005.

- According to the Office of Federal Housing Enterprise Oversight, the house price index for the state rose 11.9 percent in 2005. . Median home prices rose by nearly \$24,000 last year, which was a record increase and well above the \$4,267 average over the last 25 years (see Chart 2). The **Eastern Panhandle** within the Winchester metropolitan area was the fastest appreciating market in the state with a price gain of nearly \$35,000. Home price appreciation in the Eastern Panhandle is significantly greater because of its proximity to the Greater Washington, D.C. metro area. Despite the long commute, many workers in the D.C. area have sought more affordable housing in West Virginia.

The inventory of unsold existing homes is growing.

- By late 2005, home inventory saw significant increases and were outpacing growth in home sales in the Eastern Panhandle (see Chart 3). The total number of homes listed for sale in January 2006 was more than 150 percent higher than a year ago representing a 6.0-month supply, which is up sharply from a 2.6-month supply a year earlier. The slowing pace of home sales and growing inventory levels from a year ago suggest that marketing times may lengthen, potentially leading to slower price gains in 2006.

Bank profitability expands due to strong loan growth.

- Profitability at West Virginia community banks improved slightly during 2005.¹ Return on assets (ROA) gained a

¹Community banks have assets of \$1 billion or less.

Chart 1: Job Growth in West Virginia Is Near the National Average

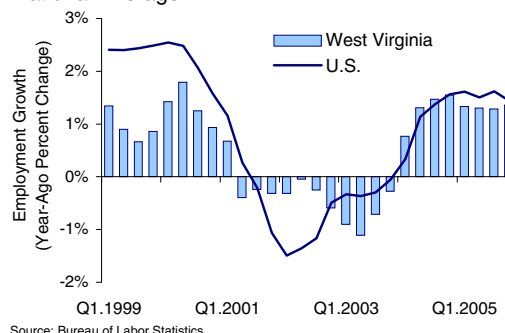


Chart 2: Annual Home Price Appreciation in West Virginia Was at a Record Level in 2005

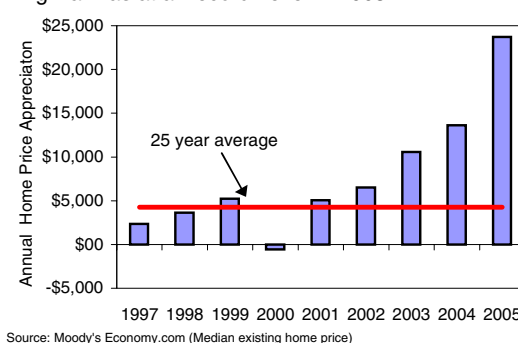
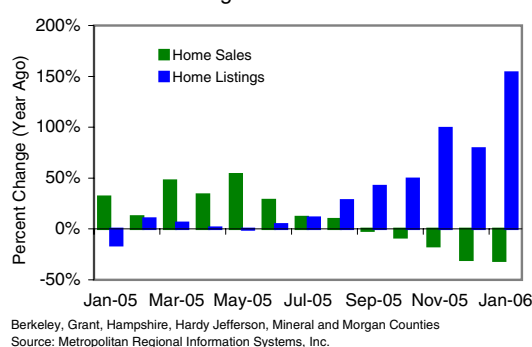


Chart 3: Existing Home Sales Are Slowing and Inventories Are Rising in the Eastern Panhandle



little more than 2 basis points to 1.02 percent during the 12-month period (see Chart 4). Significantly higher net interest income was primarily due to strong loan growth. Overall, loans increased 9.5 percent led by double-digit growth in construction and development (C&D) and multifamily real estate loans. Higher loan loss provisioning and overhead expenses limited the strong growth in net interest income.

The changing yield curve shape has affected net interest margins (NIMs).

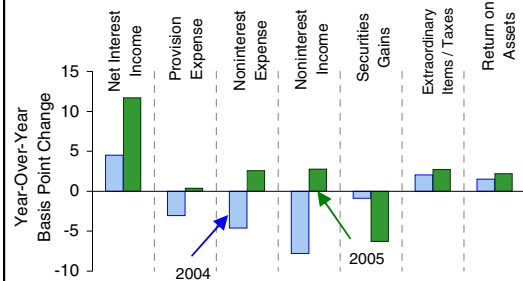
- Community bank NIMs have shown clear reactions to changes in the level and shape of the yield curve (see Chart 5). During 2002, NIMs began to expand as rate cuts led to lower funding costs, but margins then fell in 2003 as borrowers refinanced high volumes of residential mortgages and other loans. By mid-year 2004 margins stabilized and then started trending upward. While funding costs have been slower to rise because of repricing lags, they have recently begun to accelerate, suggesting that NIM pressures will begin to emerge in 2006.

Commercial real estate (CRE) lending concentrations are at unprecedented levels.

- CRE lending has been an important performance driver during the past ten years. Outstanding CRE loans have grown from \$1.8 billion, or 40 percent of assets, in 1996 to \$4.7 billion, or 51.7 percent of assets, in 2005.
- Within the CRE loan portfolio, C&D loans have been the fastest growing segment. C&D loans grew 27 percent during 2005, which was the sixth consecutive year that double-digit growth has occurred. The majority of C&D lending is for residential housing, and continued strong absorption of new housing units will be a crucial factor in performance.
- Concentrations of C&D loans have increased over the past three years (see Chart 6). However, the number and share of community banks with a large concentration in this lending segment is significantly lower than other areas of the Southeast. Only a few community banks in West Virginia had an exposure of C&D loans of 100 percent or more of capital. The **Charleston** metropolitan area was the most active market with a median C&D loan exposure of 19 percent of capital.
- In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The

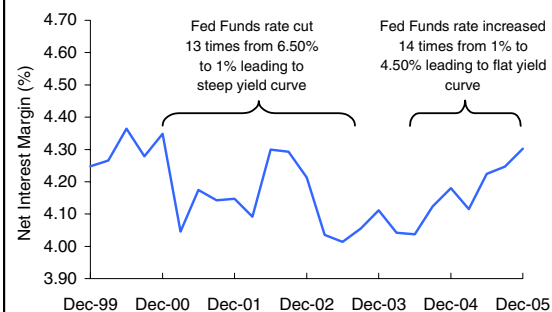
comment period for the proposed guidance has been extended to April 13, 2006.

Chart 4: Profitability Gains Have Started to Moderate at West Virginia Community Banks



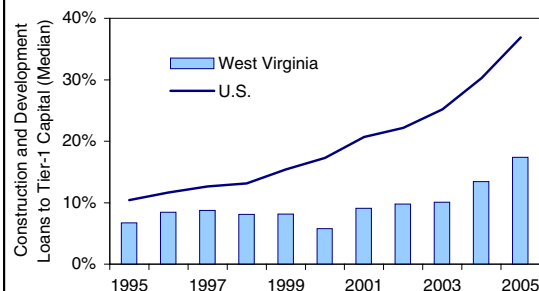
Source: FDIC, year-end data. Community banks have assets of \$1 billion or less.

Chart 5: The Dynamic Interest Rate Environment Is Reflected in West Virginia Community Bank Margins



Source: FDIC, quarterly data. Community banks have assets less than \$1 billion.

Chart 6: Construction and Development Loans Continue to Grow at West Virginia Community Banks



Source: FDIC (Community banks have assets less than \$1 billion).

West Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	1.3%	1.6%	1.3%	-0.7%
Manufacturing (8%)	-1.8%	-2.4%	-1.5%	-2.4%	-6.0%
Other (non-manufacturing) Goods-Producing (8%)	7.6%	6.7%	7.0%	6.9%	-3.4%
Private Service-Producing (64%)	1.4%	1.5%	1.6%	1.4%	0.2%
Government (19%)	0.0%	0.0%	0.8%	0.5%	-0.2%
Unemployment Rate (% of labor force)	4.9	5.2	5.1	5.3	6.0

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.8%	6.6%	5.3%	2.4%
Single-Family Home Permits	-4.0%	12.4%	2.6%	16.8%	11.8%
Multifamily Building Permits	30.2%	-73.9%	-56.9%	12.9%	-6.5%
Existing Home Sales	-10.9%	5.1%	31.3%	24.6%	2.8%
Home Price Index	11.9%	11.4%	7.6%	6.3%	4.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	12.94	10.37	5.86	6.22	5.97

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	70	72	72	72	74
Total Assets (in millions)	21,019	20,816	19,846	19,846	18,978
New Institutions (# < 3 years)	2	2	1	1	3
Subchapter S Institutions	4	4	4	4	3

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.96	1.89	2.17	2.17	2.41
ALLL/Total Loans (median %)	1.09	1.16	1.16	1.16	1.14
ALLL/Noncurrent Loans (median multiple)	1.83	2.39	1.95	1.95	1.58
Net Loan Losses / Total Loans (median %)	0.20	0.08	0.12	0.16	0.17

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.44	10.18	9.80	9.80	9.45
Return on Assets (median %)	0.96	1.05	0.96	0.95	0.92
Pretax Return on Assets (median %)	1.37	1.56	1.31	1.38	1.32
Net Interest Margin (median %)	4.30	4.21	4.21	4.23	4.12
Yield on Earning Assets (median %)	6.33	6.16	5.80	5.76	5.93
Cost of Funding Earning Assets (median %)	2.07	1.90	1.55	1.53	1.81
Provisions to Avg. Assets (median %)	0.13	0.12	0.15	0.13	0.17
Noninterest Income to Avg. Assets (median %)	0.58	0.55	0.55	0.50	0.51
Overhead to Avg. Assets (median %)	3.05	2.96	3.07	3.00	2.99

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	68.4	67.3	66.3	66.3	63.7
Noncore Funding to Assets (median %)	15.9	16.0	14.9	14.9	14.0
Long-term Assets to Assets (median %, call filers)	26.6	26.6	25.8	25.8	28.9
Brokered Deposits (number of institutions)	12	12	11	11	10
Brokered Deposits to Assets (median % for those above)	2.9	3.5	1.2	1.2	0.8

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	64.3	62.5	70.6	70.6	66.5
Commercial Real Estate	159.3	150.3	158.6	158.6	151.2
Construction & Development	18.6	15.3	13.4	13.4	10.7
Multifamily Residential Real Estate	1.7	1.8	1.2	1.2	1.0
Nonresidential Real Estate	129.7	128.2	123.2	123.2	117.8
Residential Real Estate	300.6	285.0	273.8	273.8	278.3
Consumer	71.1	73.6	74.3	74.3	87.0
Agriculture	1.8	1.7	1.8	1.8	2.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Charleston, WV	22	4,404	< \$250 million	57 (81.4%)
Huntington-Ashland, WV-KY-OH	25	3,566	\$250 million to \$1 billion	10 (14.3%)
Hagerstown-Martinsburg, MD-WV	16	2,798	\$1 billion to \$10 billion	3 (4.3%)
Wheeling, WV-OH	14	2,385	> \$10 billion	0 (0%)
Parkersburg-Marietta, WV-OH	24	2,276		